



## Staff Report

### November 14, 2017

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**TO:** Honorable Mayor and Members of the Town Council  
**FROM:** Roger Carroll, Finance Director/Treasurer  
**DATE:** October 20, 2017  
**RE:** Adoption of Investment Policy

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#### **Recommendation**

Adopt resolution.

#### **Issue Statement and Discussion**

Each year, the Town Council is required to review and adopt the Town's investment policy. While this can be done at any time during the year, it has typically been done in November.

The Town's Investment Policy complies with all laws and regulations.

The following changes have been made this year:

- Page 4, Item VIII.3 – Supranationals. These securities are issued by international agencies that have status similar to Fannie Mae and the Federal Home Loan Bank, but on an international level. While there are more of these agencies, we are including only the three largest that have situs in the United States.
- Page 5, Item VIII.7 – Commercial paper. Deleted specifically named nationally rated security rating organizations (NRSRO's) and inserted the acronym NRSRO.
- Page 5, Item VIII.8 – Negotiable certificates of deposit. Added additional types of financial institutions and the rating requirements.
- Page 5, Item VIII.10 – Mutual funds and money market mutual funds. These funds have been clarified in the California Municipal Code and appropriate language has been added to our policy.
- Page 8, Item XII – Diversification, and Item XII – Maximum Maturities have been updated for the changes, above.
- Miscellaneous grammatical corrections

#### **CEQA Requirements**

There are no CEQA issues.

#### **Financial and/or Policy Implications**

This report complies with the State Municipal Code.

**Attachments**

- A. Resolution
- B. Town of Loomis Investment Policy
- C. Town of Loomis Investment Internal Controls and Guidelines
- D. List of Authorized Dealers and Institutions

**TOWN OF LOOMIS**

**RESOLUTION NO. 17-**

**A RESOLUTION OF THE TOWN COUNCIL OF THE  
TOWN OF LOOMIS ACKNOWLEDGING THE REVIEW, RECEIPT AND FILING OF THE  
ANNUAL STATEMENT OF INVESTMENT POLICY**

WHEREAS, The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (GC) sections 53600.6 and 53630.1); and

WHEREAS, the legislative body of a local agency may invest surplus funds not required for the immediate necessities of the local agency in accordance with the provisions of GC sections 5921 and 5360; and

WHEREAS, the Treasurer of the Town of Loomis shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting; and

WHEREAS, the Treasurer of the Town of Loomis declares the Annual Statement of Investment Policy for the 2017-18 fiscal year to be as stated in the Attachment A, "Town of Loomis Investment Policy," and Attachment B, "Town of Loomis Investment Internal Controls and Guidelines," and

WHEREAS, the legislative body of a local agency must annually authorize the Treasurer to invest the surplus funds in accordance with the adopted investment policy.

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Council of the Town of Loomis that the foregoing be received and filed.

PASSED AND ADOPTED this 14th day of November 2017 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
Town Clerk

# **Town of Loomis**

## **Investment Policy**

**Prepared by:**

**Roger Carroll  
Town Treasurer**



## **I. POLICY**

It is the policy of the Town of Loomis (the Town) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands the Town and conforming to all State and Town statutes governing the investment of public funds.

## **II. SCOPE**

The investment policy applies to all financial assets of the Town as accounted for in the Annual Financial Report. This policy is applicable, but not limited, to all funds listed below:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Trust Funds
5. Any New Funds created by the Town Council unless specifically exempted

## **III. PRUDENCE**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market, or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The standard of prudence to be used by the Town Treasurer and other individuals assigned to manage the investment portfolio, shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## **IV. OBJECTIVE**

The primary objectives, in priority order, of the Town's investment activities shall be:

### **1. Safety**

Safety of principal is the foremost objective of the Town's investment program. Investments of the Town shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Town will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

### **2. Liquidity**

The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated.

### **3. Return on Investment**

The Town's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the Town's investment risk constraints and cash flow characteristics of the portfolio.

## **DELEGATION OF AUTHORITY**

Authority to manage the Town's investment program is derived from the California Government Code section 41000 et al. Management responsibility for the investment program is hereby delegated to the Town Treasurer who shall be responsible for all transactions undertaken. In the Town Treasurer's absence, the Finance Director and/or the Town Manager are authorized to take action to initiate investment transactions. The Treasurer shall establish a system of controls to regulate the activities of the Finance Director and/or the Town Manager, and their procedures in the absence of the Treasurer.

The Treasurer shall establish written policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

## **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Additionally, the Town Treasurer and investment officials are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

## V. AUTHORIZED DEALERS AND INSTITUTIONS

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved security broker/dealers selected by credit worthiness that are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the treasurer with the following: proof of National Association of Security Dealers certification, proof of state registration and certification of having read the Town's investment policy and depository contracts.

## AUTHORIZED AND SUITABLE INVESTMENTS

Investment of Town funds is governed by the California Government Code Sections 53600 ET seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation on the amount of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA) and the Federal Home Loan Mortgage Association (FHLMC). There is no percentage limitation on the portfolio for these securities, although a five-year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted. The percentage of the cost value of the portfolio in any one issuer name shall not exceed a maximum percentage of 15%. The total value invested in any one issuer shall not exceed 5% of the issuer net worth. A five-year maximum maturity is applicable unless further restricted by this policy.

3. Supranational securities, provided they are unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. These securities must be rated "AA" or higher by a nationally recognized statistical rating organization (NRSRO). Purchases of Supranationals must not exceed 30% of the Town's portfolio and no individual issuer shall exceed 10% of the Town's portfolio. The maturity will not exceed 5 years.



3.4. Bonds issued by the Town of Loomis. This policy allows for a maximum of 5% of the cost value of the portfolio to be available to be issued as bond financing for improvement districts within the Town limits.

4.5. Treasury notes, bonds or certificates of indebtedness of the States of the United States of America and their political subdivisions. Purchases may not exceed 50% of the cost value of the portfolio.

6.6. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Bankers acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio.

6.7. Commercial paper rated A or higher by Moody's Investor Services or by Standard and Poor's, and issued by domestic corporations having assets in excess of \$500,000,000.00 and having an A or better rating on its ~~long term~~long-term debentures as provided by ~~Moody's or Standard and Poor's~~an NRSRO. Purchase of eligible commercial paper may not exceed 180 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio.

7.8. Negotiable certificates of deposit or deposit notes with at stated remaining term to maturity of less than 5 year issued by nationally or state chartered banks, ~~a or~~ state or federal savings institutions and loan association, a state or federal credit union, or by a federally-licensed or a state-licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated "A" or better by at least one NRSRO. Purchases of negotiable certificates of deposit may not exceed 30% of the total portfolio.

8.9. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State Law. See section IX, below for additional requirements of Investment Pools.

10. Mutual Funds and Money market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 provided that:~~Money Market Mutual Funds may be used for investment of excess funds.~~

- a. Mutual Funds that invest in the securities and obligations as authorized under the California Government Code Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria in paragraphs (i) or (ii):
  - i. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
  - ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California

Government Code Section 53601 and with assets under management in excess of \$500 million.

- iii. No more than 10% of the portion of the portfolio may be invested in shares of any one mutual fund.

b. Money Market Mutual Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria in paragraphs (i) or (ii):

- i. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs;  
or
- ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.
- iii. No more than 20% of the investment portfolio may be held in Money Market Mutual Funds.

9- See IX, below, for additional requirements. ~~See section IX, below for additional requirements of Mutual Funds.~~

~~10.~~11. Time Deposits, non-negotiable and collateralized in accordance with California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this type of investment.

~~11.~~12. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated "A" or higher by Moody's or Standard and Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 15% of the market value may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.

Ineligible investments are those that are not described herein, including, but not limited to: Repurchase (and reverse repurchase) agreements, common stocks and long-term (over ~~five-year~~ ~~five-year~~ maturity) notes and bonds are prohibited from use in this portfolio unless specifically allowed both by state law and Town Council approval. It is noted that special circumstances may arise where these methods of investment may become necessary. Should this become necessary, the Town Council will be asked to take the appropriate action to ratify the means of investment necessary, provided that it is allowable by California Government Code.

Any State of California legislative actions that further restrict allowable maturities, investment type, or percentage allocations will supersede any of the material presented herein. In this case, the applicable law will become part and parcel of this investment policy.

## **INVESTMENT POOLS/MUTUAL FUNDS**

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives. The Town's funds will only be invested in pools and funds which invest in compliance with State Government Code sections 53600 ET seq.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

## **COLLATERALIZATION**

Collateral is required for investments in certificates of deposit, repurchase agreements, and reverse repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest.

In order to conform with the provisions of the Federal Bankruptcy Code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible bankers acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to the principal and interest by the United States of any agency of the United States.

## **SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts.

## **DIVERSIFICATION**

The Town will diversify its investments by security type and institution. With the exception of U.S. Treasury securities, U.S. Government agency securities, and

authorized pools, no more than 50% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution.

The following are maximum percentage limitations by instrument, which shall be used for the Town's total portfolio:

<u>Investment Type</u>	<u>Percentage</u>
Local Agency Investment Funds	<del>\$50,000,000 per account</del> <u>Statutory</u>
<u>amount</u>	
US Treasury Bonds/Bills/Notes	100%
US Government Agency Bonds	100%
<u>Supranationals</u>	<u>30%</u>
<u>Bonds issued by the Town</u>	<u>5%</u>
Banker's Acceptances	<u>40%</u>
Commercial Paper	<u>15%</u>
Negotiable Certificates of Deposit	<u>30%</u>
Time Certificates of Deposit	<u>25%</u>
Medium Term Notes	<u>30%</u>
<del>Treasuries and Gov. Agencies, other</del>	
<del>than Federal States of the US and their subdivisions</del>	
<u>Municipal bonds</u>	<u>50%</u>
<u>Mutual Funds/Money Market Mutual</u>	<u>20%</u>

## MAXIMUM MATURITIES

To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than five years from the date of purchase. Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Not precluding the above, maximum maturities for investments are as follows:

<u>Investment</u>	<u>Time</u>
US Treasury and Agency Securities	5 Years
Bonds Issued by Local Agencies	5 Years
Registered State Warrants & Notes	5 Years
Banker's Acceptances	180 Days
Commercial Paper	180 Days
Negotiable Certificates of Deposit	5 Years
<u>Timed Certificates of Deposit</u>	<u>5 Years</u>
Medium Term Corporate Notes	5 Years
Collateralized Mortgage Obligations	5 Years

## INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by and external auditor. This review will provide internal control by assuring compliance with policies and procedures.

## **PERFORMANCE STANDARDS**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

**Market Yield (Benchmark):** The Town uses an active investment strategy. Given this strategy, the basis used by the Treasurer to determine whether market yield is being achieved shall be to compare actual yield to a comparable benchmark, in this case the ~~two-year~~two-year U.S. Treasury note.

## **REPORTING**

The Treasurer shall provide the Town Council with monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, Amortized Book Value and Market Value.
5. Percentage of the Portfolio represented by each investment category.

## **INVESTMENT POLICY ADOPTION**

The Town's investment policy shall be adopted by resolution of the Town Council. The policy shall be reviewed annually by the Town Council and any modifications made thereto must be approved by the Town Council.

## GLOSSARY OF TERMS

**Accrued Interest** - Interest accumulated on a security since the issue date or the last coupon payment. The buyer of the security pays the market price plus accrued interest.

**Agencies** - Agencies of the Federal government set up to supply credit to various classes of institutions (i.e. S&L's, small business firms, students, farmers, housing agencies, etc.)

**Asked** - The price at which securities are offered.

**Bankers' Acceptance (BA)** - A draft or bill of exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

**Benchmark** - A comparative base for measuring the performance or risk tolerance to the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Basis Point** - One basis point is one hundredth of one percent (.01).

**Bid** - The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

**Bond** - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**Book Value** - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**Broker** - One who brings buyers and sellers together and is compensated for his service.

**Callable** - Securities that the issuer has the right to redeem prior to maturity.

**Certificate of Deposit (CD)** - A deposit insured up to \$100,000 by the FDIC at a set rate for a specified period of time. Large denominations are typically negotiable.

**Collateral** - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public monies.

**Commercial Paper** - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**Corporate Medium-Term Note** - A security issued by a corporation doing business in the U.S. with a maturity not to exceed five years.

**Coupon** - The annual rate of interest that a bond's issuer promises to pay the bond holder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

**Current Maturity** - Amount of time left to the maturity of an obligation. (For example, a one-year bill issued nine months ago has a current maturity of three months.)

**Current Yield** - The interest paid on an investment expressed as a percentage of the current price of the security.

**Dealer** - Someone who acts as a principal in all transactions, including buying and selling from his/her own account.

**Debenture** – A bond secured only by the general credit of the issuer.

**Delivery Versus Payment** – There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for securities.

**Derivatives** – (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**Discount** – The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**Discount Securities** – ~~Non-interest-bearing~~ interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

**Diversification** – Dividing investment funds among a variety of securities offering independent returns.

**Federal Credit Agencies** – Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**Federal Deposit Insurance Corporation (FDIC)** – a federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**Federal Funds Rate** – The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**Federal Home Loan Banks (FHLB)** – Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

**Federal National Mortgage Association (FNMA)** – FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**Federal Open Market Committee (FOMC)** – Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**Federal Reserve System** – The central bank of the United States created by Congress and consisting of a ~~seven-member~~seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**Face Value** - The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**Government National Mortgage Association (GNMA or Ginnie Mae)** – Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

**Liquidity** - An asset that can easily and rapidly be converted into cash without significant loss of value.

**Local Agency Investment Fund (LAIF)** - A voluntary investment fund open to government entities in California that is managed by the State Treasurer's office.

**Mark to Market** - Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

**Market Value** - The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

**Master Repurchase Agreement** – A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of a default by the seller borrower.

**Maturity** - The date on which the principal or stated value of an investment becomes due and payable.

**Money Market** - The market in which short-term debt instruments (bills, commercial paper, ~~bankers~~banker's acceptances, etc.) are issued and traded.

**Mutual Funds** - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

**Note** - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

**NRSRO – a Nationally Recognized Security Rating Organization. Examples would be Moody's, Standard and Poor's, or Fitch.**

**Offer** – The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**Open Market Operations** – Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.



**Par Value** - The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

**Portfolio** - Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

**Primary Dealer** - A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities Broker/dealers, banks, and a few unregulated firms.

**Principal** - The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**Prudent Person Standard** - A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

**Qualified Public Depositories** - A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**Rate of Return** - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**Rating** - The designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range from the highest Aaa, down through Aa, A, Baa, Ba, B, etc., while Standard and Poor's ratings range from the highest, AAA, down through AA, A, BBB, BB, B, etc.

**Repurchase Agreements** - An agreement of one party to sell securities to a second party and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

**Safekeeping** - A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**Secondary Market** - A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities and Exchange Commission (SEC)** - The federal agency responsible for supervising and regulating the securities industry.

**SEC Rule 15C2-1** - See Uniform Net Capital Rule.

**Structured Notes** - Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**Swap** - The sale of one issue and the simultaneous purchase of another for some perceived advantage.

**Treasury Bills** – A ~~non-interest-bearing~~interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**Treasury Bonds** – Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**Treasury Notes** – Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**Underwriter** - A dealer which purchases a new issue of municipal securities for resale.

**U.S. Government Obligations** - Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes and Bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations which mature between 1 year and 10 years. Bonds are long-term obligations which generally mature in 10 years or more.

**Weighted Average Maturity (WAM)** - The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**Yield** - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

**Yield Curve** - A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**Yield to Maturity** - The rate of income on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

**The Town of Loomis**  
**Internal Controls and Guidelines**  
**November 14, 2017**

**1. Delegation of Authority**

The Loomis Town Council hereby delegates its authority to invest funds of the Town for a one-year period to the Treasurer who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the Loomis Town Council may renew the delegation of Authority each year. The Treasurer may choose to delegate with the Council's approval the day-to-day placement of investments to an investment adviser via a written agreement between the Town and an Adviser. The Adviser shall make all investment decisions and transactions in strict accordance with state law and the Authority's Investment Policy.

The Treasurer shall also be responsible for ensuring that all investment transactions comply with the Town's Investment Policy and for establishing internal controls. The internal controls shall be designed to regulate the Town's investment activities, including the activities of any subordinate officials and advisors acting on behalf of the Town, and to prevent losses of public funds arising from fraud, error, misrepresentations of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town. The most important controls are: control of collusion; separation of duties; separation of transaction Authority from accounting and bookkeeping; custodial safekeeping; delegation of authority; limitations regarding securities losses and remedial action; written confirmation of telephone transactions; minimizing the number of authorized investment officials; documentation of transactions and strategies; and annual review of controls by the Treasurer.

**2. Separation of Duties**

When broker confirmations and monthly custodian bank statements are received, they shall be reconciled to internal documentation promptly upon receipt. The staff member who performs the reconciliation shall not be the same as the staff member who executes investment transactions.

**3. Custodial Safekeeping and Trade Settlement**

**Safekeeping**

All securities purchased shall be delivered to the Town's custodial bank. All securities sold shall be delivered directly from the Town's custodial bank to the counter party's custodial bank.

**Trade Settlement**

All investment transactions will be settled "delivery-vs.-payment" (DVP) in accordance with industry standards. Staff members shall not handle cash or securities in conjunction with the investment of Town's funds.

The Treasurer shall coordinate the settlement of all transactions with the Authority's custodian bank, Bank of New York/Mellon, and send all necessary paperwork to:

Lauren Dehner  
Bank of New York/Mellon  
400 South Hope Street  
Los Angeles, CA 90071  
Direct: (213) 630-6461  
Fax: (213) 630-6165  
[gaby.rodriquez@bnymellon.com](mailto:gaby.rodriquez@bnymellon.com)

#### **Transfer Funds or Invest Proceeds**

If the Town is purchasing a security, it may be necessary to transfer funds from another bank account or a LAIF account. If the Town is selling a security or a security matures, it may be necessary to invest the proceeds in another security, to transfer funds to another bank account or to a LAIF account. The Town's Treasurer will initiate necessary transfer of funds for trade settlements.

#### **4. Competitive Bid**

- It is preferred that all trades are executed competitively with a minimum of three price quotes to insure best execution of the transaction.
- Competitive quotes, however, are not necessary for new issues when they are offered during the initial (primary) selling period and quoted at the same price (usually par) by all broker/dealers.
- These guidelines recognize that it is not always possible to locate three broker/dealers who offer exactly the same security. This is particularly true in the case of secondary market agency securities, corporate bonds, and some money market securities. In those situations, comparable securities will be used to determine the current value for a security being considered for purchase.

#### **5. Trade Documentation**

The Town's Treasurer shall reconcile the monthly investment transaction reports with the transaction report received from the Custodian.

##### **Trade Ticket**

The Broker/Dealer will prepare a trade ticket with all the information pertinent to the purchase or sale of the investment and fax or e-mail it to the Town's Treasurer.

##### **Broker Confirmation**

A confirmation will be issued by the broker/dealer for each purchase or sale transaction. The information on the confirmation will be checked and reconciled to the trade ticket from the Broker/Dealer, and the Town's copy of the confirmation should be attached to the trade ticket.

##### **Monthly Custody Statement**

Union Bank will issue a Monthly Custody Statement for all the securities purchased and delivered to and held in the Town's custody account. The information on the Monthly Custody Statement will be checked and reconciled to the Town's Transaction and Holdings report.

##### **Verify the Documentation of the Transaction**

To assure internal controls, the documentation of investment transactions must be carefully checked. The transaction and security information on the Broker/Dealer's Trade ticket, the broker's Trade Confirmation, and Union Bank's Monthly Custody Statement should be carefully cross checked to be sure that all information reconciles. If any trade document does not reconcile with what is known as the correct information regarding a trade, then the party who issued that document must be contacted to correct the erroneous information.

## **6. Authorized Financial Dealers and Institutions**

1. The Town's Treasurer shall determine which financial institutions are authorized to provide investment services to the Town. Institutions eligible to transact investment business with the Authority include:
  - a. Primary government dealers as designated by the Federal Reserve Bank;
  - b. Non-primary and regional dealers;
  - c. Nationally or state-chartered banks;
  - d. The Federal Reserve Bank; and
  - e. Direct issuers of securities eligible for purchase by the Authority.
2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the Town shall be at the sole discretion of the Town.
3. All financial institutions which desire to become qualified bidders for investment transactions must supply the Town Treasurer with a statement certifying that the institution has reviewed the California Government Code Section 53600 et seq. and the Town's Investment Policy and that all securities offered to the Authority shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.
4. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
5. Selection of broker/dealers used by the Town shall be at the sole discretion of the Town.

## **7. Mitigating Credit and Market Risk in the Portfolio**

The Authority will mitigate credit risk in the portfolio by following the guidelines described in the Investment Policy regarding diversification, maximum percentages of any single issuer and procedures for credit rating downgrades. Market risk will be mitigated by following the guidelines also described in the Investment Policy regarding maximum maturity, liquidity and the duration of the portfolio.

## **8. Annual Review**

The Treasurer will review these investment procedures and guidelines annually and recommend any necessary revisions to the Board for approval.

Prepared by:

Roger Carroll, Treasurer  
Town of Loomis



**Town of Loomis**  
**List of Authorized Dealers and Institutions**  
**Per Town of Loomis Investment Policy Section VII**

Dal Yuon  
Wells Fargo Advisors  
620 Coolidge Drive, Suite 300  
Folsom, CA 95630  
(916) 355-0626

Richard Ebert  
UBS Financial Services, Inc.  
10001 Woodloch Forest Drive, Suite 100  
The Woodlands, Texas 77380  
(800) 522-6222

Mark Davidoff  
First Empire Securities  
100 Motor Parkway  
Hauppauge, NY 11788  
(800) 645-5424